



WEEKLY ECONOMIC DIGEST

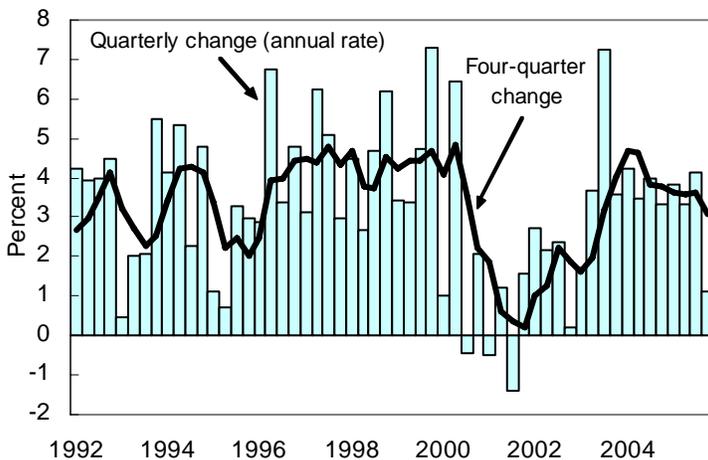


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

January 31, 2006

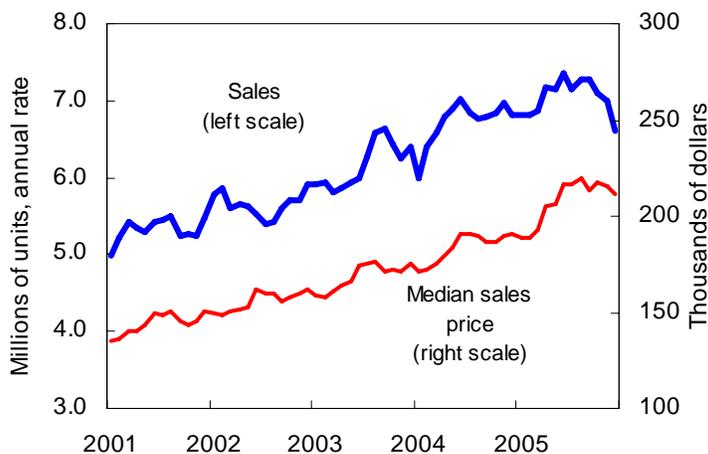
Economic Growth Slowed and Home Sales Cooled At Year's End

Growth of Real Gross Domestic Product



Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Sales and Prices of Existing Homes



Source: National Association of Realtors.

- **Economic growth slowed sharply in the fourth quarter.** Real (inflation-adjusted) gross domestic product (GDP) grew at a 1.1 percent annual rate in the fourth quarter of 2005 (see top chart). That sharp decline from the 4.1 percent rise in the previous quarter was larger than forecasters had expected. Over the year, the economy grew at a 3.1 percent average pace, down from 3.8 percent in 2004.
- **Consumer spending rose faster than income in December.** Slower growth in consumer spending in the quarter as a whole contributed to the sharp slowing in fourth quarter growth. However, consumer spending in December posted a strong 0.9 percent advance, reinforcing analysts' expectations that economic growth would rebound in the first quarter of 2005. Because income grew more slowly than spending in December, the personal saving rate remained negative, at -0.7 percent.
- **Existing home sales weakened at year's end.** Sales of existing homes (single-family homes, townhomes, condominiums, and co-ops) fell for the third consecutive month in December to a 6.6 million unit annual rate (see bottom chart). That is 3.1 percent below the level at the end of 2004. The median sales price of existing homes fell to \$211,000 in December. That amount is below the peak reached in August but 10.5 percent higher than the price at the end of 2004. Sales of new single-family homes ended the year 1.8 percent higher than a year earlier, while prices of new homes ended the year 3.4 percent lower at \$221,800.
- **The Fed is likely to raise short-term rates again.** The Federal Open Market Committee (FOMC) is widely expected to raise its target for the interest rate on overnight federal funds to 4½ percent at the close of its policy meeting today. If so, that rate hike would be the fourteenth consecutive ¼–percentage-point increase in the target funds rate since the FOMC began raising that rate from its level of 1 percent in mid-2004.

The Economy at a Glance	Dec	Nov	Oct	Sep	2005 Qtr 4	2005 Qtr 3	2005 Qtr 2	2005 Qtr 1	2005	2004
Economic Activity										
Real GDP (% growth)	—	—	—	—	1.1	4.1	3.3	3.8	3.5	4.2
Industrial Production (% growth)	7.4	10.0	12.7	-14.5	3.8	1.4	1.6	3.8	3.2	4.1
Capacity Utilization (level, %)	80.7	80.3	79.8	79.1	80.2	79.8	79.9	79.9	80.0	78.6
Civilian Unemployment Rate (level, %)*	4.9	5.0	4.9	5.1	5.0	5.0	5.1	5.2	5.1	5.5
Housing Starts (thousands)	1933	2121	2051	2160	2035	2101	2044	2083	2066	1950
Real Disposable Personal Income (% growth)	5.0	10.0	4.9	32.9	7.0	-2.0	0.2	-3.4	1.4	3.4
Retail Sales (% growth)	8.6	10.1	2.6	3.7	2.3	6.9	10.8	5.6	7.6	7.3
Personal Saving Rate (level, %)	-0.7	-0.2	-0.1	-0.5	-0.4	-1.8	-0.2	0.5	-0.5	1.8
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	-1.2	-7.0	2.4	15.4	3.2	5.1	4.2	2.4	3.4	2.7
Core CPI-U Inflation (% growth)	2.4	2.4	2.4	1.2	2.3	1.5	2.0	2.6	2.2	1.8
Employment Cost Index (% growth)*	—	—	—	—	n.a.	3.2	2.8	2.8	n.a.	3.9
Output per Hour (% growth)*	—	—	—	—	n.a.	4.7	2.1	3.2	n.a.	3.4
Financial Markets										
T-bill Rate, 3-month (level, %)	3.89	3.88	3.71	3.42	3.83	3.36	2.86	2.54	3.15	1.37
T-note Rate, 10-years (level, %)	4.47	4.54	4.46	4.20	4.49	4.21	4.16	4.30	4.29	4.27
Federal Funds Rate (level, %)	4.16	4.00	3.78	3.62	3.98	3.46	2.94	2.47	3.22	1.35
Dow Jones Industrial Avg (index level)	10828	10695	10324	10533	10616	10544	10382	10648	10548	10317

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Upcoming Economic Releases:

- **Employment Cost Index: December 2005** [Release: Tuesday, January 31]
- **Federal Open Market Committee Monetary Policy Statement** [Tuesday, January 31]
- **Construction Spending: December 2005** [Release: Wednesday, February 1]
- **Productivity and Costs: Fourth Quarter 2005 (Preliminary)** [Release: Thursday, February 2]
- **The Employment Situation: January 2006** [Release: Friday, February 3]